

DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY
Docket No. R97-1

POSTAL RATE AND FEE CHANGES, 1997

RESPONSE OF UNITED STATES POSTAL SERVICE TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION (MMA/USPS-FU-2-8)

The United States Postal Service hereby provides responses to the following interrogatory of Major Mailers Association: MMA/USPS-FU-2-8, filed on October 23, 1997.

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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November 17, 1997

U.S. POSTAL SERVICE RESPONSE TO MMA INTERROGATORIES

MMA/USPS-FU-2

Please refer to the Postal Service's October 21 Response to Order No. 1197, Table II-2, where the Service lists the total mail processing unit cost results for the following categories of First-Class letter and cards: (a) Nonautomation presort, (b) Automation basic presort, (c) Automation 3-digit presort, (d) Automation 5-digit presort, and (e) Automation carrier route presort. Please confirm (as requested by the Interrogatory) that the information provided in this Response "shows how the costs of First-Class letters would change if [the Service] had used the Commission-approved methodology."

Response:

Confirmed. This response shows the costs under the Postal Service's best attempt at using the Commission's methodology.

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MMA/USPS-FU-3

Please refer to Interrogatory MMA/USPS-FU-2 and to Order No. 1197, pages 6-7 and 8, where the Commission said that witness Hatfield's "unit costs [for the various rate categories of First-Class letters and cards] provide the basis of worksharing discounts for First-Class letters and cards because they indicate the amount of costs avoided by the various worksharing categories" and "The effect of the Postal Service's proposed changes in mail processing attribution methods on the cost avoidance calculations that underlie its proposed rate category discounts is information that is obviously relevant to evaluating both its proposed attribution methods and its proposed discounts. Indeed, it would be difficult to properly evaluate the Postal Service's proposed discounts without it."

(A) Is it possible to determine from the Table II-2 unit costs *alone*:

- (1) "[T]he basis of worksharing discounts for letter and cards" (See Order No. 1197, page 6)?
- (2) "[T]he amount of the costs avoided by the various worksharing categories" (See Order No. 1197, pages 6-7)?
- (3) "[T]he cost avoidance calculations that [should] underlie...rate category discounts" (See Order No. 1197, page 8)?

If the answer to any of the subparts of this Interrogatory is other than "no," please explain in detail and provide a calculation of the basis of the discounts, the amount of costs avoided, and the cost avoidance calculations that should underlie First-Class rate category discounts under the Commission's methodology.

Response:

- A. (1) - (3) No, it not possible to determine from Table II-2 alone the cost avoided relative to single-piece First-Class letters.

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MMA/USPS-FU-4. Please refer to Interrogatory MMA/USPS-FU-2 and to Exhibit USPS-T32, page 19, where the Postal Service witness stated that "cost avoidances and the resulting discounts are measured by subtracting the cost of the rate category under consideration from the benchmark cost" and that "the benchmark is just as critical as the measured cost of the rate category in determining the discount." Please also refer to Exhibit USPS-T32, pages 19-21, where the Postal Service witness disapproved the use of "all presorted letters as a benchmark," saying that instead: "The specific benchmark I used in setting the discounts for bulk automation letters is the sum of mail processing and delivery costs *for bulk metered mail*" (Italics added).

If the Commission decides to establish discounts by using the methodology implicit in the Table II-2 of the October 21 Response and the unit costs shown in that Table, does the Postal Service still believe that:

- (A) Cost avoidances and the resulting discounts should be measured by subtracting the (labor plus delivery) cost of the rate category under consideration from the benchmark cost?
- (B) The benchmark is just as critical as the measured cost of the rate category in determining the discount?
- (C) The unit costs of all presorted letters should not be used as a benchmark?
- (D) The specific benchmark that should be used in setting the discounts for bulk automation letters is the sum of mail processing and delivery unit costs *for bulk metered mail*?

RESPONSE: Please note that the preamble to parts (a)-(d) of this interrogatory contains three typos, which have not been corrected above. In the first and sixth lines of the preamble, witness Fronk's testimony (USPS-T32) is incorrectly referred to as an exhibit. Also, in the seventh line of the preamble, the quotation "all presorted letters as a benchmark" should instead read "all nonpresort letters as a benchmark," per line 17 of page 19 of USPS-T32.

(a) To correctly characterize the discussion concerning benchmarks and avoided costs which appears at pages 19-21 of USPS-T32, the parenthetical to this question, "(labor plus delivery)," should read "(mail processing plus delivery)." If this change is made, the response to this question is "yes" with respect to measuring cost avoidances; in setting the "resulting discounts," not only cost avoidance but other criteria may need to

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be considered. Also, note that the view of the Commission is cited at page 20, lines 20-22, through page 21, lines 1-3, of USPS-T32:

I focused on the mail processing and delivery cost aspects of this benchmark because these are the costs that will be affected by presorting and barcoding. Transportation and "other costs" are not likely to be avoided by these worksharing activities. The Commission reached the same conclusion about transportation and "other" costs in MC95-1 (paragraph 4273 at page IV-123).

(b) Yes.

(c)-(d) Consistent with the preamble to this response, the question set forth in subpart (c) should read "nonpresorted letters" rather than "presorted letters." If this change is made, the response to these subparts is "yes." Also, note that the choice of the benchmark was made within the context of the discussion which appears at pages 19-21 of USPS-T32 and was consistent with the Commission decision in Docket No.

MC95-1. As stated at lines 17-20 of page 20 of USPS-T32:

As the Commission stated in Docket No. MC95-1 (paragraph 4302 at page IV-136), "...the single-piece mail most likely to convert to the automation categories is limited to the bulk metered mail component."

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MMA/USPS-FU-5

Please refer to Interrogatory MMA/USPS-FU-4.

- (A) Does the Postal Service's October 21 Response to Order No. 1197 show a unit processing cost for the bulk metered mail benchmark for First-Class letters, computed in accordance with the Commission's methodology ?
- (B) Has the Postal Service submitted any other document in this proceeding that shows the unit processing cost for the bulk metered mail benchmark for First-Class letters, computed in accordance with the Commission's methodology? If so, please provide a copy of that document or (if it is voluminous) a citation to the place in the record where that benchmark is available.

Response:

A. No.

B. No.

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MMA/USPS-FU-6

Please refer to Interrogatories MMA/USPS-FU-4 and FU-5 and to the Postal Service's October 16 Response to Order No. 1197. In response to Interrogatory MMA/USPS-T25-1, the Postal Service said that "The unit benchmark processing costs in witness Hatfield's testimony...differ from those that would be produced under the Commission's costing methodology."

- (A) Does the Postal Service's unit cost for the bulk metered benchmark, used in Exhibit USPS-T32 (page 26) in conjunction with witness Hatfield's "unit processing costs" to derive the First-Class cost savings shown on that page, also "differ from [the bulk metered benchmark] that would be produced under the Commission's costing methodology"?
- (B) If the Commission decided to compute discounts according to its own methodology, using the unit processing costs shown in Table II-2 of the Service's October 21 Response, would it be proper and consistent with the Commission's methodology for the Commission to adopt the Postal Service's unit cost bulk metered benchmark used in Exhibit USPS-T32 (page 26) in conjunction with witness Hatfield's "unit processing costs" to derive the First-Class letter-discount?
- (C) If the answer to Subparagraph (B) is other than "no," please explain in detail why it is appropriate to derive discounts by subtracting unit costs derived under one methodology from a benchmark that is derived under a different methodology?

Response:

- A. The answer to the question is yes. As noted in our response to MMA/USPS-FU-4, witness Fronk's testimony (USPS-T32) is incorrectly referred to as an exhibit in this question as well. The response to this question takes this reference to be "testimony."
- B. No.
- C. Not applicable.

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MMA/USPS-FU-7

Please refer to Interrogatories MMA/USPS-FU-2 and FU-4 through 6. Please provide the unit processing cost for a bulk metered mail benchmark that is comparable to the unit processing costs shown in Table II-2 to the Service's October 21 Response to Order 1197 and that will provide the Commission with a consistent basis to employ the Table II-2 costs in making a determination, under the Commission's methodology, about:

- (1) "[T]he basis of worksharing discounts for letter and cards" (See Order No. 1197, page 6)?
- (2) "[T]he amount of the costs avoided by the various worksharing categories" (See Order No. 1197, pages 6-7)?
- (3) "[T]he cost avoidance calculations [for]...rate category discounts" (See Order No. 1197, page 8)?

Response:

The mail processing unit cost for bulk metered First-Class single-piece letters is 13.16 cents. This is the metered First-Class single-piece letter unit cost of 14.61 cents minus the Opcode 1 unit cost for First-Class single-piece letters of 1.45 cents.

The first step in this calculation is to compute the mail processing unit costs by shape for First-Class single-piece Letters, Flats and Parcels. This calculation was done using the methodology from LR-MCR-10 from Docket No. MC95-1. The mail processing unit costs for First-Class single-piece letters, flats and parcels are 15.84, 36.34, and 67.67 cents respectively.

Bulk metered First-Class single-piece letter costs were not previously calculated in MC95-1. This calculation is done here mirroring the calculations done in LR-H-106. The metered First-Class single-piece letter mail processing unit cost is obtained by computing the percent of direct tally costs associated with metered letters as compared with the total First-Class single-piece letter costs by basic function. This leads to a mail processing First-Class single-piece metered letter cost of 14.61 cents. To reflect the

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bulk entry aspect the cost for Opcode 01, which is 1.45 cents, is subtracted from the metered letter costs. Opcode 01 covers mail preparation costs, including facing and canceling and traying First-Class single-piece. Opcode 01 costs for First-Class single-piece metered letters were computed by using the LIOCATT Opcode 01 costs for First-Class single-piece letters and determining the percentage of direct tally costs associated with metered letters as compared with the total First-Class single-piece letter costs by basic function. This is the same method used to compute the total metered First-Class single-piece letter unit cost.

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MMA/USPS-FU-8

Please supply the workpapers that support the Service's October 21 Response to Order No. 1197, especially Table II-2 of that Response.

Response:

The workpapers are contained in LR-H-301, filed October 29th.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

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November 17, 1997